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Milwaukee County
CHRIS ABELE • COUNTY EXECUTIVE

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County Executive Chris Abele Calls for Comprehensive Pension Reform

Asks County Board to Partner With Him to Protect Earned Benefits

MILWAUKEE – Despite six years’ worth of improvements implemented by County Executive Chris Abele, Milwaukee County’s pension system is still plagued with systemic deficiencies and complexities that leave the current system unable to consistently provide clarity, transparency, and responsible management.

The system as currently designed is beyond repair. The only option to ensure future sustainability that protects retirees, employees, and taxpayers is comprehensive reform. We need to look at all options, including a possible transfer to the state. Anything short of that simply means more of the same.

The fraught nature of the system was most recently exposed by a serious error that the county executive learned about earlier this year. After accepting the resignation of the individual responsible for not taking timely action to correct the error, bringing in a risk management specialist to take immediate action, and beginning the process of bringing in an independent auditor to do a deeper analysis of the system in partnership with the County’s auditor, the county executive voluntarily reported the error to various stakeholders in the media to ensure full transparency. We also communicated with retirees, employees, the Pension Board, and the County Board.

Now, less than a month later, and with additional errors already identified prior to auditors even beginning their work, County Executive Abele is calling for the County Board to partner with him on comprehensive reform to the County’s pension system. The county executive released the following statement:

“The challenges facing Milwaukee County’s pension system have existed for decades. While benefits for current retirees are safe, the complicated nature of the system itself, combined with governance complexities, decades worth of partial fixes, and ballooning costs related to overly generous benefits we could never afford, has led us to a situation where our current system is not sustainable in the long term.

“I understand that the continued discussion around our flawed pension system, and the potential impact

on earned benefits, can be upsetting and confusing for employees and retirees. To be clear, they did nothing wrong. Protecting the benefits our workforce earned is my top priority as we navigate this process. They've earned my trust and I hope to keep theirs by communicating our progress on this in an honest and transparent way.

"I've worked to make improvements to this system over the past six years because it was the right thing to do for workers, retirees, and the taxpayers. We increased transparency, decreased the amortization period from 30 years to 20 years, and worked with the Pension Board to approve an upcoming adjustment to lower the assumed rate of return from 8 percent to 7.5 percent by 2019. The County has also decreased our unfunded healthcare liabilities by more than half a billion dollars and created a debt reserve, which was used to help to offset a multi-million dollar error made by the County's actuary.

"Even still, we face significant long-term challenges. While the County is now 100 percent funded on normal pension costs (i.e., the benefits currently being earned by employees), our unfunded liability related to previously earned benefits and controversial benefit enhancements like the backdrop is skyrocketing. Every year since taking office I have funded the Pension Board's requests to fill this gap through a combination of tax levy and departmental revenues.

"The unfunded liability, related to retiree benefits offered long before 2011, is beyond our control. The County's obligation to cover the pension system's annual unfunded liabilities has increased by 360 percent since I took office, from \$10.1 million in 2011 to an expected \$46.8 million in 2017. Again, this liability is related to benefits already earned by retirees, not the benefits of current employees. This number would have been much higher had we not implemented reforms.

"In addition to the unfunded liability problem, decisions made long ago have resulted in a massively complicated system. There are 180 different pension benefit plan variations based on date of hire, length of service, and bargaining unit, many of which still require hand calculation. To put this in comparison, the state pension system, that every other county uses, has four variations; we have 180. We've paid out more than \$293 million in backdrops since 2002 and will likely have to pay out another \$100 million as approximately 1200 additional employees become backdrop eligible. The County and Pension Board have also worked with the IRS for nearly a decade to correct a number of errors made prior to 2008, some of which actually date back to the 1980s.

"The recent serious overpayment error that we reported to the press didn't cause our pension crisis – it simply exposed how deeply flawed and ripe for potential chaos the system actually is.

"Milwaukee County can no longer nibble around the edges when it comes to strengthening our pension system. We need to explore a comprehensive overhaul, to include, among other things, studying a move to the state's pension system – all options must be on the table. The state's ERS is fully-funded and is the healthiest, most reliable pension system in the country. In 2010, a group of County Board supervisors, including now-Chairman Theo Lipscomb, voted for a resolution sponsored by Sups. Marina Dimitrijevic and John Weishan that would transfer the County's system to the state. Editorial writers have also recently spoken in favor of such a move. Whether or not a move to the state is the best solution, it is clear that we must make comprehensive changes. Our retirees, employees, and the taxpayers deserve better than the current system.

"I am asking the County Board to partner with me in aggressively seeking solutions that will actually advance our shared goal, which is an effective and sustainable pension system on which employees and retirees can rely.

"But we must pursue change in a thoughtful way. In the coming weeks I will engage with a diverse group of stakeholders to outline potential paths forward that protect the benefits our retirees -- and future retirees - have earned through their lifetimes of public service. At the same time, we also must balance these decisions with the County's ability to provide essential services that people rely on and make investments in transit, parks, and workforce development.

"There are no easy answers or quick fixes to this challenge, but I am confident that comprehensive reform is the only viable decision we have, and I will be pushing very hard so that the retirees, employees, and taxpayers finally get the effective pension system they all deserve."

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